Minnesota's Unique Property Tax System

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This presentation is based on the facts and circumstances being discussed, and on the laws in effect when it is presented. It does not supersede or alter any provisions of Minnesota laws, administrative rules, court cases, or revenue notices.

If you have any questions, contact us at sa.property@state.mn.us, 651-556-6091, or consult a tax professional.

MN's Unique Classification System

- Properties are assigned separate classifications based on use.
  - Classifications determine the share of the levy (local government budget) different properties pay.
  - 50+ classifications in MN

- No mill rate
  - Net Tax Capacity system
  - Value increases don't necessarily mean tax increases

MN's Unique Classification System

Property Type	Tier	Class Rate	State General Levy Rate
Commercial/Industrial	*First $150,000*	1.50%	1.50%
	Over $150,000	2.00%	2.00%
Electric Generation Public Utility Machinery		2.00%	N/A
All Other Public Utility Machinery		2.00%	2.00%
Transmission Line Right-of-Way		2.00%	2.00%

Classification Rates - 2014 Assessment

Class	Description	Tiers	Class Rate	State General Rate
1a	Residential Homestead	First $500,000	1.00%	N/A
		Over $500,000	1.25%	N/A
1b	Blind/Disabled Homestead	First $50,000	0.45%	N/A
4c(4)	Post-Secondary Student Housing		1.00%	N/A
4c(5)(i)	Manufactured Home Park		1.25%	N/A
4c(5)(ii)	Manufactured Home Park (>50% owner-occupied)		0.75%	N/A
4c(5)(ii)	Manufactured Home Park (50% or less owner-occupied)		1.00%	N/A
4c(6)	Metro Non-Profit Recreational Property		1.25%	N/A
4c(7)	Certain Non-Comm. Aircraft Hangars and Land (leased land)		1.50%	N/A
4c(8)	Certain Non-Comm. Aircraft Hangars and Land (private land)		1.50%	N/A
4c(9)	Bed & Breakfast		1.25%	N/A
4c(10)	Seasonal Restaurant on a Lake		1.25%	N/A
4c(11)	Marina	First $500,000	1.00%	N/A
		Over $500,000	1.25%	N/A
4c(12)	Seasonal Residential Recreational Non-Commercial (cabin)	First $76,000	1.00%	0.40%
		$76,000 - $500,000	1.00%	1.00%
		Over $500,000	1.25%	1.25%
4d	Low Income Rental Housing (Per Unit)	First $100,000	0.75%	N/A
		Over $100,000	0.25%	N/A
5(1)	Unmined Iron Ore and Low-Grade Iron-Bearing Formations		2.00%	2.00%
5(2)	All Other Property		2.00%	N/A

What is this "Preferred Classification" rate?

Commercial/Industrial	*First $150,000*	1.50%	1.50%
	Over $150,000	2.00%	2.00%

For utilities, railroads, and pipelines, this means they get one first-tier preferred rate per company, per county.

How does this work?

- The City of Godric's Hollow needs $100,000.
- The city has only 3 types of properties:
  - 40 homes
  - 10 farms
  - 1 electric utility property

Property Type	Taxable Value	Class Rate	Net Tax Capacity
Homes	$4,000,000	1.00%	$40,000
Farms	$5,000,000	0.50%	$25,000
Utility Property	$1,000,000	2.00%	$20,000

How does this work?

- The City's Net Tax Capacity (NTC) is $85,000.
- Their tax rate is 117.6% to get their $100,000.

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- The City's Net Tax Capacity (NTC) is $85,000.
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Property Type	Net Tax Capacity	Local Tax Rate	Net Taxes
Homes	$40,000	117.6%	$47,040
Farms	$25,000	117.6%	$29,400
Utility Property	$20,000	117.6%	$23,520

How does this work?

- If the utility property were exempted, the City's NTC would be $65,000.
- Their tax rate would be 153.8% to get their $100,000.

Property Type	Net Tax Capacity	Local Tax Rate	Net Taxes
Homes	$40,000	153.8%	$61,520
Farms	$25,000	153.8%	$38,450
Utility Property	EXEMPT	EXEMPT	EXEMPT

Classification = Distribution

Net Tax Liability by Property Class Assessment Year 2014, Taxes Payable 2015 (Preliminary Estimates)				
PROPERTIES BY CLASS	MARKET VALUE (MILLIONS)	NET TAX (MILLIONS)	MARKET VALUE SHARE	SHARE OF NET TAXES PAYABLE
Agricultural/Rural Vacant	$153,158	$766	25.8%	8.6%
Residential (Homestead and Non-Homestead)	$302,928	$4,287	51.1%	48.2%
Apartments	$25,217	$442	4.3%	5.0%
Seasonal Recreational Residential	$24,864	$247	4.2%	2.8%
Commercial/Industrial	$70,391	$2,660	11.9%	29.9%
Utility/Other	$16,660	$486	2.7%	5.5%

Levy-Based Property Taxes

- Local governments set levy
- For utilities, railroads, and pipelines: DOR sets value
- DOR doesn't gain or lose anything
- Money goes to benefit the local area that hosts the utility/railroad/pipeline

The State General Property Tax

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The State General Property Tax

Property Type	Net Tax Capacity	State General Rate	State General Taxes
Public Utility Machinery	$20,000	50.840%	$10,168

Levy-Based Property Taxes

- It is a common misconception that values drive taxes.
  - Value increases are not revenue increases.
  - Value determines your share of the tax burden.
  - Changes in levies, tax base, values, and a number of other factors drive changes in tax amounts.

Our complex system garners attention

- When the Solar Energy Production Tax was enacted, Legislators had questions:
  - How are other energy facilities taxed?
  - Are they all treated the same?
  - Do they pay similar taxes?
  - Is there a better way to do it?

Key findings of taxation of energy-producing facilities

- *"It is inconclusive whether the property tax system accurately accounts for the unique and varying burdens imposed on host communities."*

- *"It is inconclusive whether the property tax system adequately compensates for current burdens, but it does not account for potential long-term costs."*

Key findings of taxation of energy-producing facilities

- Not all energy types of treated equally:
  - Levy-based taxes using property value
  - Production taxes for wind and solar

- Energy-producing facilities not treated equally to other properties
  - May pay personal property tax on equipment/machinery

- Within an energy type, not all facilities treated equally:
  - Some specific facilities have exempt personal property

Key findings of taxation of energy-producing facilities

- The costs and benefits to host communities for hosting energy producing facilities can vary. Some of the variations include:
  - Energy source
  - Facility size
  - Ownership structure

What next?

- No specific recommendations to change taxation in the report.
- Legislature began discussions of different ways of determining value (and maybe taxes) for energy producing systems.